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REAPPORTIONMENT

July 18, 2002

Dear Commissioner Fitzgerald:

I would like to thank you for this opportunity to provide my written comments regarding the use of consumer credit history and the use of credit scoring by insurance companies for determining insurance rates. This is an issue that has long been of concern to me. I commend your efforts to gather information and examine the effect this practice has on consumers in Michigan.

As you may know, I have introduced Senate Bill 1227 which would modify provisions in the Insurance Code to prohibit insurers from maintaining premium discount plans based on a policyholder's credit history or lack of a credit history. In doing so, my bill would prohibit insurance companies from using credit scores for determining insurance rates.

Many of my constituents have expressed to me their concerns about the excessive and unaffordable cost of automobile and homeowner's insurance in Detroit. For too long, Detroit area residents have been paying significantly higher insurance premiums than other parts of this state with little or no legislative relief. The use of credit history and credit scores for determining insurance rates, in many instances, exacerbates this problem without any logical or definitive connection between an individual's financial behavior and the likelihood that he or she will submit an insurance claim.

Many insurers argue that the use of credit scores results in consumers paying less than they otherwise would. However, insurance companies are afforded the ability under the Insurance Code to inflate their base rates by establishing them on the worst possible risk while using credit scores to "discount" those rates. This results in the use of credit scores, not as an accurate measure for identifying risk, but rather, as a marketing tool which merely aims to penalize those with impaired or no credit history.

There is also a great deal of uncertainty as to how insurance companies use credit information. There is no requirement that insurance companies provide consumers with the credit score used in determining their rate, nor is there any requirement that insurance companies support a credit score determination with actuarially credible information. Every insurer has a different method for

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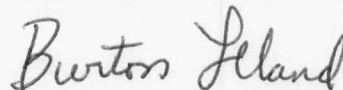
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determining an individual's credit score, yet insurance companies are not required to file the criteria used to determine that score or the weight given to the importance of each element of the credit score with the Office of Financial and Insurance Services. Without the full disclosure and accountability on the part of insurance companies to justify the use of credit scores, this practice should be discontinued. Consumers have a right to know how insurance companies set their premiums.

I am confident that as you conclude your scheduled public hearings, your findings will support the need for the Legislature to adopt Senate Bill 1227 and eliminate the use of credit scores as a factor in calculating insurance rates.

Thank you again for your attention to this important issue. I look forward to reviewing your final report and welcome the opportunity to work with your office on legislative changes that result in greater consumer protection to policyholders.

Sincerely,

A handwritten signature in cursive script that reads "Burton Leland".

BURTON LELAND

State Senator

BL/kp